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UNCLAS SECTION 01 OF 02 SOFIA 001545

SIPDIS

E.O. 12958: N/A

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SUBJECT: BULGARIA: AS FLOOD WATERS FALL, EXTENSIVE COSTS
LOOM; AGRICULTURE HIT HARD

Ref: A) SOFIA 1224; (B) SOFIA 1272; (C) SOFIA 1398 (D) SOFIA
1404;

1. SUMMARY: Though government officials are still completing on-site damage assessments, their preliminary estimate of flood losses stands at one billion leva (USD 625 million) and 10 deaths. A recent USDA report shows the agricultural sector has sustained substantial damage, estimated at USD 160 million. Flood waters have affected many areas of agricultural production, resulting in crop and livestock losses and damage to agricultural infrastructure and equipment. To date, the government has extended a total of 247.5 million leva (USD 155 million) for immediate flood recovery operations, but continues to rely on EU assistance to cover most of the damages. USAID has provided a total of USD 450,000 to CARE-Bulgaria and the Bulgarian Red Cross for flood recovery operations. END SUMMARY.

COST OF FLOODING CONTINUES TO RISE

2. The figure of USD 625 million in damages is likely to be revised upward, as both government and municipal bodies continue on-site damage assessments, revealing the full scope of the disaster. According to preliminary information from the government, about 16,000 homes and buildings were damaged by the floods. Nearly 200 residential buildings were completely destroyed and another 1,292 residential buildings remain uninhabitable. In addition, hundreds of bridges, dikes and drains, as well as substantial segments of the railroad and road systems, were damaged.

AGRICULTURAL SECTOR HIT HARD

3. Flood waters had a substantial effect on agricultural production, resulting in the loss of crops and livestock and damaging agricultural infrastructure and equipment. The government's preliminary assessment estimates agricultural sector losses at 72 million Bulgarian leva (USD 45 million), of which USD 2 million is due to damaged rural infrastructure. However, it expects total damages in the agricultural sector alone to reach 123 million leva (USD 77 million). The actual cost will be better known after flooded areas have been drained. Regions planted with sunflower and wheat were the hardest hit agricultural areas.

4. A recent USDA report, however, estimates total losses to the agriculture sector even higher at USD 160 million. The report finds that of the estimated loss to the agriculture sector, 43 percent is due to reduced yields in total grain production; 11 percent to reduced grape production; and 9 percent each to reduced vegetable and fruit production. Livestock losses have been estimated at 6,000 pheasants; 2,407 poultry; 426 beehives; 267 pigs and 124 sheep. The report also shows that the damage to the irrigation infrastructure, most of which was built in the 1950-60s, is estimated at 31 million Bulgarian leva (USD 19 million). There are other non-quantifiable costs, including reduced competitiveness of Bulgarian agricultural products due to deteriorated quality and higher production cost, the need for more expensive imports due to short supply of local produce for the canning industry and wine manufacturers, and increased consumer prices.

NEW CABINET SETS PRIORITIES, RELIES ON FOREIGN AID

5. While a Parliamentary ad-hoc committee is preparing a draft crisis management law, the newly-approved government has outlined its basic emergency relief and rehabilitation efforts. The short-term objectives are to ensure that schools are ready for the new school year, identify and tailor assistance to different household needs, accommodate those left without homes, clean up river beds, restore dikes and rehabilitate roads and railroad infrastructure. To this end, the government has extended a total of 247.5 million Bulgaria leva (USD 155 million) for immediate flood relief. Of this total, 9 million leva is for financial assistance for the worst-hit households, with each household entitled to receive 1,000 Bulgarian leva (USD 625). The government

earmarked 120 million Bulgaria leva (USD 75 million) for repairing infrastructure.

16. Bulgaria continues to rely on EU assistance to provide most of the financial resources. The Bulgarian Finance Ministry has sent a second request to the EU for the amount of 850 million Bulgaria leva (USD 531 million), having revised their initial request, which was only for 75 million euro. In view of the extensive damage from the flooding, the Bulgarian government plans to request that EU funds slated for other pre-accession programs be re-directed for flood-related assistance.

17. In the meantime, Bulgaria has received humanitarian aid from individual countries and international donor organizations totaling 1,061,000 euro. In addition to an initial USD 50,000 to the Bulgarian Red Cross, USAID provided USD 400,000 to CARE-Bulgaria for flood recovery operations. CARE-Bulgaria used these funds to procure a variety of needed resources, including drinking water, food, disinfectants, bedding and blankets, protective clothes for working in water, and inflatable boats with outboard motors. CARE-Bulgaria is also distributing public awareness leaflets on basic sanitation and disinfectant usage. (Note: The Embassy's public diplomacy program surrounding these donations has been exceptionally effective. Our assistance has been warmly recognized throughout the government and the country. End Note.) Hungary recently announced that it will also provide humanitarian aid (primarily disinfectants).

18. COMMENT: Though the waters have receded and humanitarian aid has eased the most urgent effects of the flooding, substantially higher costs of the overall damage are looming. This could well be the most costly flooding in Bulgaria's history, and the Bulgarian government will need substantial assistance. Aside from the lack of financial resources necessary for flood recovery operations, longer-term problems including proper crisis management law and clear-cut guidance for emergency relief and rehabilitation must also be addressed. Although the economy in the first half of the year remains on solid footing, the recent flooding will likely have a negative impact. Agricultural sector output, which accounts for less than 10 percent of GDP, will shrink further, and flood recovery operations will entail substantial budgetary expenses. The central bank has already taken notice, cautioning that flood recovery operations will push demand up, possibly leading to higher inflation. The IMF has also warned that budgetary discipline must still be maintained even in the face of this disaster. END COMMENT

BEYRLE